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SIPDIS

TREASURY FOR MILLS/PIPATANAGUL

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SUBJECT: JORDAN'S ENERGY MINISTER ON TANKERS AND PIPELINES  
AND PRICE HIKES (OH MY!)

Classified By: Charge D'Affaires Gregory Berry, reasons 1.5 (b.d)

#### Summary

1. (s) Energy Minister Mohammed Bataineh updated DCM December 4 on a number of developments in Jordan's energy sector. The Minister commented on challenges facing the GOJ in maintaining a floating oil reserve in a tanker in Aqaba, discussed latest developments on the al-Arish-Aqaba gas pipeline, and reviewed the kingdom's ongoing efforts to privatize the energy sector and to marketize prices for petroleum products. The updates portray a ministry that is committed to diversifying and marketizing. End summary.

#### Tanker Update

2. (s) Following discussions of Jordan's negotiations with Iraq on the annual trade and oil protocol (septel), Energy Minister Mohammed Bataineh briefed the DCM on developments in a range of activities under the ministry's supervision. Bataineh said the oil tanker Jordan has purchased as a floating oil storage facility is roughly one-third filled (80,000 tons out of a capacity of 260,000 tons). This initial inflow had been accomplished by emptying the existing storage tanks in Aqaba into the ship. Additional filling of the ship, he said, would be much slower, owing to logistical constraints -- the rate at which tanker trucks could off-load into either the Aqaba storage tanks or the ship itself, plus a recent problem removing 50,000 tons of ballast water from some of the tanker's receptacles (in an environmentally friendly way) to make room for additional oil. Bataineh said oil for the ship is being received from Iraq at the rate of about 3,800 tons per day, meaning it will take at least another 48 days before the tanker is fully loaded.

3. (s) Complicating this calculation, said Bataineh, is the fact that Jordan has only one oil jetty that also functions as the sole jetty for vegetable oil, Liquid Propane Gas (LPG) and sulpho-chemicals. Every time another ship needs to use the jetty, the tanker must be moved at a cost of \$50,000 in fuel oil and gasoil (used to fire the inefficient steam engines of the tanker). Bataineh said the GOJ had considered "banking" the ships, i.e., holding multiple ships in parallel at the jetty and running hoses across the decks of the close-to ships out to the outlying ships. However, while this proved a workable solution for vegetable oil, safety concerns precluded using this method to load/offload LPG or sulpho-chemicals. Bataineh said the GOJ is now looking into transforming an existing jetty currently used for offloading timber (south of the main port) into a second oil jetty. The main problem so far, he said, was that the draft at the timber jetty was only 6.5 meters, compared to the 12 meters needed to house oil tankers. Bataineh said the GOJ would be interested in examining the potential for dredging the timber jetty, but did not have the expertise or equipment to do so.

#### Al Arish Proceeding Apace

4. (c) Bataineh said the gas pipeline project between al Arish gas field in Egypt and Aqaba was on schedule, with gas delivery to the Aqaba power plant planned to begin in June 2003. The Aqaba plant generates 40% of Jordan's power needs, and currently accounts for 14% of Jordan's oil consumption. The next step, said Bataineh, is to negotiate the terms for extending the pipeline from Aqaba to northern Jordan.

#### Price Hikes In The Offing

5. (c) Bataineh confirmed that the GOJ is looking ahead to raising prices for certain petroleum products in the coming months. Gasoline prices, according to Bataineh, are roughly at world market levels (note: \$1.45/gallon for leaded regular at the pump. End note.). Thus the GOJ is focusing on heavily-subsidized products, including LPG, gasoil and kerosene. Bataineh said a plan is in the works to phase out subsidies for LPG over two years. Currently, consumers pay approximately \$3.52 for a bottle of LPG that costs the GOJ \$4.93 to produce. The government's aim is to eliminate that cost to the government by slowly rationalizing prices. However, Bataineh stressed, the GOJ was loathe to undertake price hikes immediately in advance of elections (currently scheduled for spring 2003).

Privatizations: Rolling, Rocky

16. (c) Bataineh said privatization plans for Jordan's electrical power generation and distribution operations are proceeding as planned. He expected the GOJ to be ready to issue RFP's for the two operations by the end of January 2003, and noted several multinationals had expressed interest (though he did not name them). At the same time, plans long underway to build the al-Samra independent power project (IPP) in northern Jordan have fallen into disarray after Belgian energy giant Tractebel pulled out of its pledge to take on the project at the eleventh hour. Bataineh said Tractebel blamed a 44% decline in its share prices for its decision to pull out of the IPP as well as a \$2 billion refinery project in Abu Dhabi. The GOJ's back-up plan, he said, was to task CEGCO, the government-owned generation company, to build the plant. It was unclear what impact on CEGCO's own privatization such a new project might have.

Comment

17. (s) Jordan continues to move forward on a number of fronts both to diversify its sources of energy and to get the government out of the energy subsidy business, which is in all cases a loss-making operation. Bataineh said the GOJ would welcome any offered assistance on plans to study dredging the timber jetty.

18. (sbu) He also said the GOJ would welcome TDA or other USG assistance to study Jordan's future energy infrastructure - what its capacity would be, how to organize the various power generation facilities (oil, gas, wind, solar), and what likely national and regional demand is likely to be. In this regard, he praised TDA assistance earlier this year on Jordan's wind farms.

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